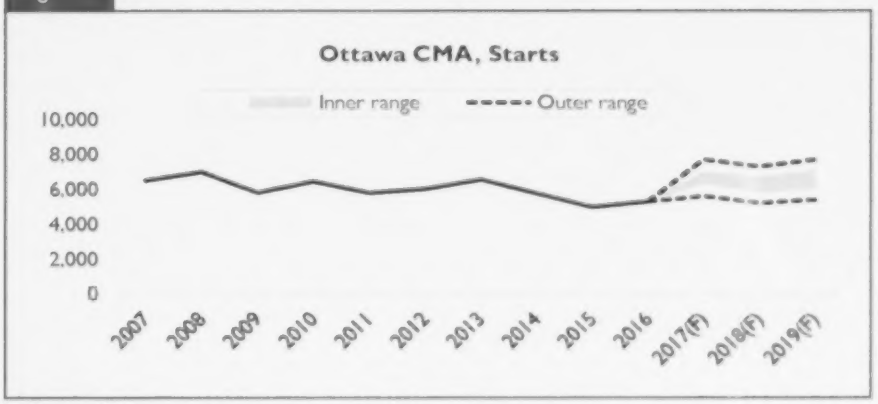
HOUSING MARKET OUTLOOK

Ottawa[1]

CANADA MORTGAGE AND HOUSING CORPORATION

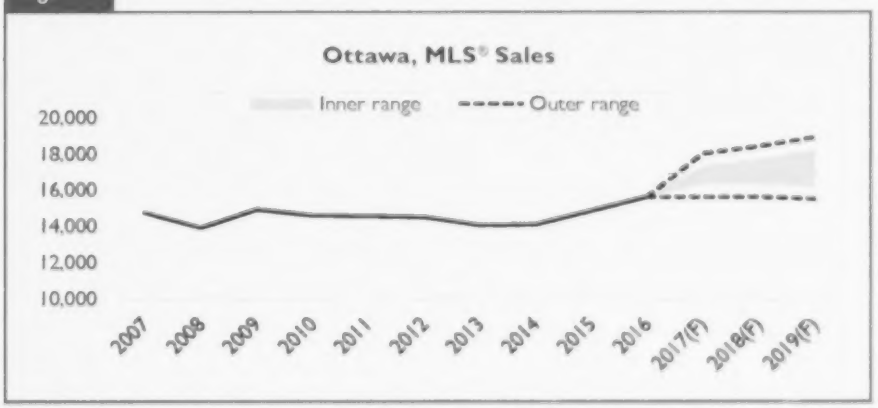
Date Released: Fall 2017

Figure 1



Source: CMHC (F) = CMHC Forecast

Figure 2



Source: CREA; (F) = CMHC Forecast; MLS® is a registered trademark of the Canadian Real Estate Association (CREA)

Highlights[2]

- Housing starts are expected to decline slightly in 2018 and 2019 due to a drop in apartment starts
- Demand for existing homes will continue to strengthen boosted by solid economic activity and Ottawa CMA's relative affordability, pushing up price growth.
- The purpose-built apartment vacancy rate will rise over the next two years as supply of rentals rises.

New home market

Following a very strong showing in 2017, Ottawa housing starts are expected to trend lower in 2018, but bounce back up in 2019. Housing starts rose 45% to August 2017 buoyed by a rise in multiples, as builders diversified the mix of apartment dwellings to include a substantial number of purpose-built rental units. The bulk of the purpose-built rental stock (72%) was built over the 1960-1989 period, encouraging builders to start more of these units in recent years. In addition, with the recent condominium inventory overhang, there has been a renewed interest in student- and purpose-built rentals. Since this substantial rise in

[1] Ontario part of Ottawa-Gatineau CMA

[2] The forecasts and historical data included in this document reflect information available as of October 2, 2017

Canada

CMHC SCHL

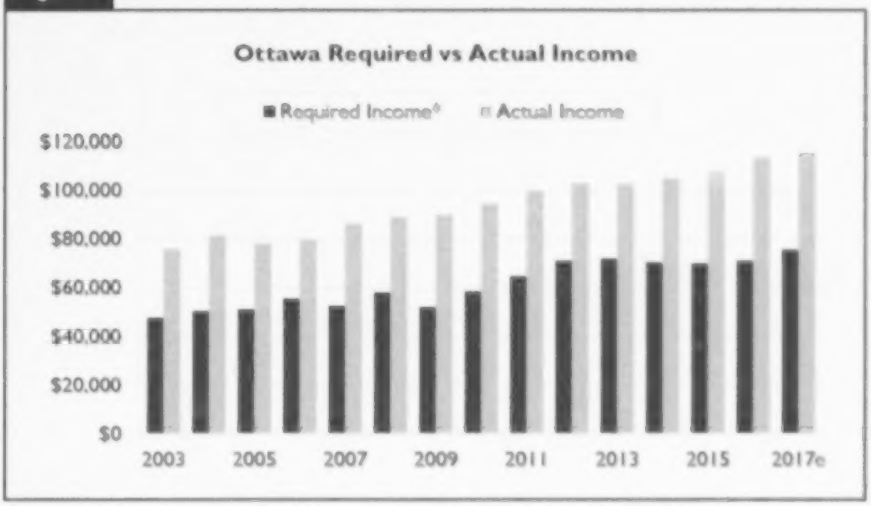
rental apartments is not anticipated to be repeated in 2018 and 2019, the retreat in apartment starts will be a drag on construction growth.

Over the next two years, employment and earnings are slated to grow and remain supportive of housing demand and housing construction. So far this year, full-time employment is driving job growth and supporting housing activity. The main risk to the starts forecast is a more protracted unwinding of the inventory of completed and unsold condominium apartment units, or even an increase. Either of these scenarios could put significantly more downward pressure on the forecasted number of starts and average resale price.

Figure 3

Source: CREA (F) = CMHC Forecast. MLS® is a registered trademark of the Canadian Real Estate Association (CREA)

Figure 4



Source: CMHC, adapted from Statistics Canada, CREA, e = estimate
*Required income is mortgage carrying costs divided by 0.32 to reflect the usual 32% gross debt service ratio.
Mortgage carrying costs are calculated on the average MLS® price, a 10% down payment, the listed five-year mortgage rate and the longest available amortization.

Existing home market

Transactions on the resale market posted strong growth at 12% so far this year, contrary to the declining sales in Ontario. Activity is expected to remain strong to the end of the year and rise further over the next two years supported by steady household formation, employment and earnings growth. Condominium apartment sales saw the strongest growth so far this year, however, single-detached homes remain the most sought after dwelling type by Ottawa homebuyers; a trend which is expected to continue over the forecast horizon as resale single-detached homes have a price and sometimes even a location advantage relative to newly-built ones. Freehold rows have been rising in popularity and gaining market share since 2011. This trend is expected to continue over the forecast horizon since rows are more affordable compared to other dwelling types.

Stronger sales over the forecast horizon will also support price growth in the range of two to five per cent. Growth in the average MLS price has been trending at six per cent so far this year, the highest price growth witnessed in the area since 2010, as market balance shifted into sellers' territory with sales outpacing

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new listings. Since prices are set to grow at a faster rate than income growth, there will be pressure on affordability over the forecast horizon. In the event that economic drivers are weaker than expected, sales would be at the lower end of our forecast range. In addition, higher than anticipated mortgage rates could also pressure sales activity and prices downward toward the lower end of the forecast range.

Rental Market

The vacancy rate is anticipated to remain at 3.0% in 2017, rise to 3.2% in 2018 and further to 3.4% in 2019. The steady influx of new comers to Ottawa through intra-provincial, inter-provincial, international migration, and robust growth in the student population are expected to support rental market demand over the next two years. However, purpose-built rental apartment construction took off this year, surpassing condo apartment starts for the first time since 2002. The full effect of the rental construction boom this year will not be evident until 2019, when we expect completions to rise pressuring the vacancy rate further up as newer units take a longer time to be absorbed. Average rents are expected to rise around inflation expectations. Slower economic growth in the area could reduce migration numbers, thereby pressuring rental market demand downward and putting upward pressure on the vacancy rate. A much slower uptake of newly-built apartment units than anticipated could also spur conversions into condominium status, a scenario that has occurred in other centres.

Economic overview

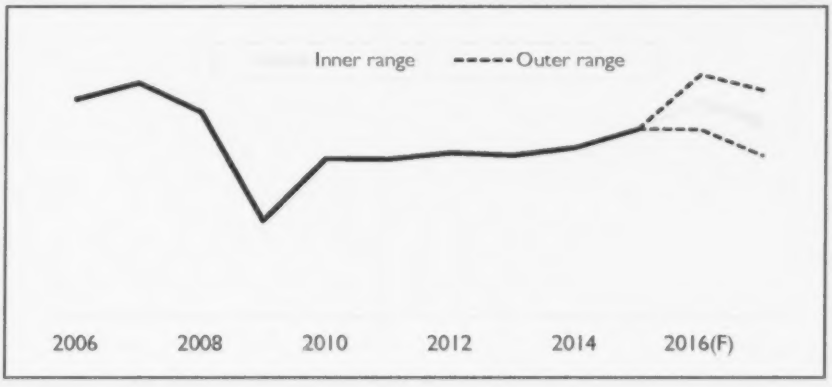
Steady population growth and migratory flows into Ottawa are expected over the forecast horizon, and will remain supportive of housing activity. In addition, employment is expected to grow over the period as the public administration sector continues to expand. So far in 2017, public administration jobs rebounded strongly following muted growth or decline since 2013. Services sector jobs however retreated so far this year, and have limited overall employment growth since this sector accounts for about half of total employment. The labour force rose at a slower rate than employment so far this year, pushing the unemployment rate down. Earnings are also slated to rise over the forecast horizon as public sector jobs are on average higher paid jobs. Risks include downward pressure on the demand for workers due to the increase in the minimum wage that took effect in Ontario this October, and is expected to rise further in 2018 and 2019.

Methodology for forecast ranges

The present edition of *Housing Market Outlook* incorporates forecast ranges for housing variables. Despite this change, all analyses and forecasts of market conditions continue to be conducted using the full range of quantitative and qualitative tools currently available. Two sets of ranges are presented in the publication:

- An inner range, which provides more precise guidance to readers on the outlook while recognizing the small random components of the relationship between the housing market and its drivers. This inner range is based on the coefficient of variation* of historical data and on past forecast accuracy. This range provides precision and direction for forecasts of housing variables, given a specific set of assumptions for the market conditions and underlying economic fundamentals.
- An outer range, which reflects potential risks to the forecast due to, for example, the impact of economic shocks. The outer range is based on a broader coefficient of variation of historical data and on past forecast accuracy. This range includes some low-probability events that could have a significant impact on the forecast.

Downward (or upward) adjustments to the ranges may be applied based on local market intelligence if there are more sources of risks (upside or downside) for that specific market.



* The coefficient of variation in this case is the standard deviation divided by the mean of that series. A higher coefficient of variation would produce wider ranges due to the higher volatility of the data, while a lower coefficient of variation would produce tighter ranges.

Forecast Summary
Ottawa CMA
Fall 2017

	2014	2015	2016	2017(F)		2018(F)		2019(F)	
				(L)	(H)	(L)	(H)	(L)	(H)
New Home Market									
Starts:									
Single-Detached	1,775	1,992	1,990	2,200	2,600	2,200	2,800	2,200	3,000
Multiples	3,987	2,980	3,308	4,100	4,400	3,600	3,900	3,800	4,100
Starts - Total	5,762	4,972	5,298	6,300	7,000	5,800	6,700	6,000	7,100
Resale Market									
MLS® Sales	14,122	14,849	15,619	16,300	17,300	16,300	17,700	16,200	18,200
MLS® Average Price($)	362,525	368,521	374,574	390,300	395,700	402,300	410,700	412,300	423,700
Economic Overview									
Mortgage Rate(5 year)(%)	4.88	4.67	4.66	4.60	5.00	4.90	5.70	5.20	6.20

	2014	2015	2016	2017(F)	2018(F)	2019(F)
Rental Market						
October Vacancy Rate (%)	2.6	3.4	3.0	3.0	3.2	3.4
Two-bedroom Average Rent (October)($)	1,132	1,174	1,201	1,225	1,245	1,260
Economic Overview						
Population	989,927	1,001,023	1,018,741	1,033,000	1,051,000	1,065,000
Annual Employment Level	533,800	531,100	543,400	549,000	557,000	566,000

Multiple Listing Service® (MLS®) is a registered trademark of the Canadian Real Estate Association (CREA).

Rental Market: Privately initiated rental apartment structures of three units and over.

The forecasts (F) included in this document are based on information available as of 2nd October 2017. (L)=Low end of range. (H)=High end of range.

It is possible that the low end (L) and the high end (H) of forecast ranges for residential housing starts for singles and multiples jointly may not add up to the total. This is caused by rounding as well as the volatility of the data.

Source: CMHC (Starts and Completions Survey and Market Absorption Survey), Statistics Canada, CREA(MLS®), CMHC Forecast (2017-2019).

DEFINITIONS AND METHODOLOGY

New Home Market

Historical home starts numbers are collected through CMHC's monthly Starts and Completions Survey. Building permits are used to determine construction sites and visits confirm construction stages. A start is defined as the beginning of construction on a building, usually when the concrete has been poured for the whole of the structure's footing, or an equivalent stage where a basement will not be part of the structure.

Single-Detached Start:
The start of a building containing only one dwelling unit, which is completely separated on all sides from any other dwelling or structure.

Semi-Detached Start:
The start of each of the dwellings in a building containing two dwellings located side-by-side, adjoining no other structure and separated by a common or party wall extending from ground to roof.

Row (or Townhouse) Start:
Refers to the commencement of construction on a dwelling unit in a row of three or more attached dwellings separated by a common or party wall extending from ground to roof.

Apartment and other Starts:
Refers to the commencement of construction on all dwellings other than those described above, including structures commonly known as stacked townhouses, duplexes, triplexes, double duplexes and row duplexes.

Average and Median Single Detached Home Prices:
Are estimated using CMHC's Market Absorption Survey, which collects home prices at absorption and measures the rate at which units are sold or rented after they are completed. Dwellings are enumerated each month after a structure is completed until full absorption occurs. The term "absorbed" means that a housing unit is no longer on the market as it has been sold or rented.

New Home Price Indexes:
Changes in the New Home Price Indexes are estimated using annual averages of Statistics Canada's monthly values for New Housing Price Indexes (NHPI).

Resale Market

Historical resale market data in the summary tables of the Housing Market Outlook Reports refers to residential transactions through the Multiple Listings Services (MLS®) as reported by The Canadian Real Estate Association (CREA). In Quebec, this data is obtained by the Centris® listing system via the Quebec Federation of Real Estate Boards.

MLS® (Centris® in the province of Quebec) Sales:
Refers to the total number of sales made through the Multiple Listings Services in a particular year.

MLS® (Centris® in the province of Quebec) Average Price:
Refers to the average annual price of residential transactions through the Multiple Listings Services.

Rental Market

Rental Market vacancy rates and two bedroom rents information is from Canada Mortgage and Housing Corporation's (CMHC's) October Rental Market Survey (RMS). Conducted on a sample basis in all urban areas with populations of 10,000 and more, the RMS targets privately initiated structures with at least three rental units, which. have been on the market for at least three months. The survey obtains information from owners, managers, or building superintendents through a combination of telephone interviews and site visits.

Vacancy Rate:
The vacancy rate refers to the average vacancy rate of all apartment bedroom types. A unit is considered vacant if, at the time of the survey, it is physically unoccupied and available for immediate rental.

Two Bedroom Rent:
The rent refers to the average of the actual amount tenants pay for two bedroom apartment units. No adjustments are made for the inclusion or exclusion of amenities and services such as heat, hydro, parking, and hot water.

Economic Overview

Labour Force variables include the Annual Employment Level, Employment Growth, Unemployment Rate.
Source: Statistics Canada's Labour Force Survey.

Net Migration:
Sum of net interprovincial (between provinces), net intra-provincial (within provinces), net international (immigration less emigration), returning Canadians and temporary (non-permanent) residents as provided to the CANSIM database by Statistics Canada's Demography Division. Sources of inter-provincial and intra-provincial migration data include a comparison of addresses from individual income tax returns for two consecutive years from Canada Revenue Agency (CRA) taxation records. The migration estimates are modelled, with the tax file results weighted to represent the whole population.

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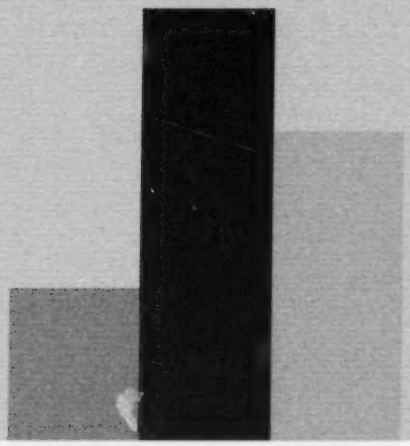

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